

Central Intelligence Agency



Washington, D. C. 20505

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DIRECTORATE OF INTELLIGENCE

14 September 1983

MEXICO UPDATE*

Key Developments

Institutional Revolutionary Party (PRI) victories in key state and local elections in August and September underscore the ruling party's continued dominance of the Mexican political system. According to press reports, the PRI held on to the governor's palace in Baja California Norte and swept state deputy contests in Oaxaca, Veracruz, and Aguascalientes. Party masterminds--especially in the Baja gubernatorial race--offset a strong challenge from the center-right National Action Party by running a popular candidate and effectively employing traditional tactics of promising largesse if the PRI won and threatening to curtail local spending if the PRI lost. Opposition triumphs in July's municipal elections, however, left a bad taste that party stalwarts are still trying to wash away. Concerns that the fallout from harsh austerity measures will translate into more embarrassing PRI losses is causing party leaders to step up efforts to rally support for other elections scheduled later this year. [redacted]

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After passing IMF scrutiny for second quarter 1983 targets, the Bank of Mexico used the third IMF loan installment and the remainder of the second tranche of its commercial loan to help repay short-term swaps from the Bank for International Settlements

* With this issue, we are inaugurating an aperiodic summary of political, economic, and military developments in Mexico. It is intended to provide up-to-date background information to the Intelligence Community. The review was prepared by the Mexico Branch, Middle America-Caribbean Division, Office of African and Latin American Analysis. Information available as of 7 September 1983 was used in preparation of this report. Comments and questions are welcome and can be addressed to [redacted] Chief, Mexico Branch, MCD/ALA [redacted]

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that came due in mid-August. While eligible to draw the third tranche of the commercial loan, US Embassy sources indicate Mexico is delaying the drawdown because of improving financial reserves. The next review of Mexico's IMF program will come in November and chances are better than even that targets will be met because Mexico City's effective implementation of austerity is still holding down the level of government spending and imports. []

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Although the Communist-dominated Unified Socialist Party failed to resolve longstanding internal rifts during its oft-postponed mid-August congress, administration concern that anti-government demonstrations could quickly attract other discontented groups and turn violent is prompting an increasingly heavy hand in dealing with opposition leftists. In July and August the government undercut Communist-dominated unions, engineered the removal of the largest leftist-run municipal administration in the country, and used police to break up a leftist student-teacher demonstration. Recent proposals to strengthen the manpower levels of the federal security forces and centralize Federal Police functions underscore the governing elite's determination to head off potential challenges to the system. []

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Review of Events

Political Issues

Building Confidence

By eschewing dramatics during his first state of the union address on 1 September, President de la Madrid underlined his continuing mastery of the political system and boosted foreign and domestic confidence in his ability to stabilize the economy. While acknowledging that financial problems and unemployment were still severe, de la Madrid claimed his policies are distributing the austerity burden equally and would limit further economic hemorrhaging. He also expressed pride in his record of reducing federal deficits substantially without sacrificing individual liberties or social rights. A pledge that he has no intention of nationalizing the economy should further boost flagging private sector spirits. The mid-August meeting with President Reagan also bolstered de la Madrid's leadership image. []

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Labor

A mid-August labor-business-government solidarity pact signaled labor's qualified backing of the President's tough stabilization policies. The new accord--according to US Embassy officials--commits businessmen to preserve jobs, improve work conditions, and hold down price increases. In exchange, labor promises moderate wage demands. []

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Crucial labor support for austerity, however, is not unconditional. After signing the accord, union patriarch Fidel Velazquez said that while workers will continue to sacrifice, the pact does not mean that labor demands will end. According to press reports, he linked holding up labor's end of the bargain to government and business success in slashing inflation. []

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Moves Against Corruption

The President, by promising a systematic renovation of the Federal civil service in his state-of-the-union speech, gave notice that his "moral renovation" campaign would not end with the arrest of former Pemex chieftain Diaz Serrano. The former police chief of Mexico City is probably the next target, and, according to local press reports, the government is preparing to confiscate some of his property. Moves against former President Lopez Portillo or his family, however, remain unlikely. While recognizing the risks to the political system in pursuing the campaign, de la Madrid probably expects that a favorable public response will enhance ruling party prospects in further elections this fall. []

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Foreign Policy

During August, in the first major adjustment of his predecessor's activist policy, de la Madrid ended 100-percent financing of oil sales to Managua. The move, while suggesting that de la Madrid is prepared to use economic leverage to try to moderate Nicaraguan actions, does not presage a strategic shift in Mexico's Central America policy. De la Madrid remains committed to the survival of the Sandinista regime and, according to US embassy sources, Mexico City will give Managua a six-month grace period before requiring payment for new oil shipments. Nicaraguan officials also traveled to Mexico City in August to conclude arrangements to repay Managua's accumulated oil debt. []

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On 1 August the new terms of the joint Mexico-Venezuela oil facility went into effect. While the two countries agreed to continue providing 10 Caribbean and Central American countries with up to 80,000 barrels per day of oil each in mid-July, concessionary terms were tightened.

- Only 20 percent of the cost of the oil will be financed by the donors, rather than the earlier 30 percent.
- The interest rate on the basic five-year credit was doubled from 4 to 8 percent.
- Although the initial credit can still be converted to a 20-year loan if used to finance energy development projects, the interest rate for this extended arrangement was tripled to 6 percent.

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Economic Trends

Domestic Performance

As increasing data became available in July and August, it was apparent that implementation of the austerity program had caused a sharper drop in economic activity than Mexican planners envisioned.

- Real GDP fell at an annual rate of 6 percent during January-June.
- Bankruptcies and job losses have multiplied.
- Real wages and personal incomes have plummeted.

Meanwhile, consumer price inflation is running at an annual rate of about 100 percent and wholesale prices are up more than 130 percent over last year.

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External Accounts

The announcement by de la Madrid that foreign exchange reserves had doubled to \$3.6 billion between last December and August indicated that the implementation of the IMF stabilization program had slashed foreign purchases. Peso devaluations and disrupted credit lines also helped to slice imports 60 percent during the first half of the year. We estimate that during the January-June period the trade surplus soared to \$6.6 billion,

allowing Mexico to make \$4.8 billion in interest payments and pushing the current account into a \$1.9 billion surplus. []

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Financial Developments

Mexico City paid only another 5 percent on private sector interest arrearages held in escrow accounts during the last two months. To date only 25 percent of the \$600 million in accounts set up to pay past due interest has been paid out. International bankers are now pressing Mexico to pay off the balance due by 30 September 1983, rather than refinance outstanding amounts as a medium-term loan. []

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Pemex and international bankers, on 11 August, agreed to renew a \$4 billion banker's acceptance facility used to finance trade. []

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[] Because some regional bankers refused to go along, lead bankers increased their participation to close the deal. []

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On 26 August, after a year of negotiation, Mexico rescheduled payment of \$11.4 billion in principal owed by the central government, the state oil company, and the national development bank. Press reports indicate terms are those proposed last December--an eight-year rescheduling with a four year grace period and interest rates of 1 and 7/8 percent over the London Interbank Offer Rate or 1 and 3/4 percent over the US prime rate. Treasury Secretary Silva Herzog later said he expected to sign agreements covering an additional \$8.6 billion owed by other government agencies in coming months. []

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Petroleum

Pemex raised the price of its heavy Maya crude by \$1, to \$24 per barrel effective 1 August. Mexico City's announcement, coinciding with Venezuela's decision to hike prices on its similar heavy-grade oil, indicates continued close cooperation with other producers on pricing. According to the industry press, the Maya crude has been underpriced; Pemex officials report that contracts with major purchasers are being renewed without opposition. Mexico expects an additional \$750,000 a day in revenues or about \$100 million during the rest of 1983. []

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Security Affairs

During August, reports of scattered demonstrations--primarily over traditionally contentious land, political, and student issues--continued to filter into the capital; especially from the south. The situation in Oaxaca [redacted]

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[redacted] remains tense. In addition to postponing elections in the city, a provisional PRI government was appointed. Followers of the ousted mayor, however, are refusing to vacate city offices, but Mexico City has made no move to evict them. [redacted]

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So far, the regional character of the issues prompting most disturbances have allowed local police to maintain order. Military leaders, however, are increasingly concerned that troops will be required to intervene. Although financial constraints are curbing purchases, informal queries-- [redacted] --about the availability and prices of riot control equipment have been made. [redacted]

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Even though security forces are focusing on maintaining public order, they remain concerned about activities of foreign nationals.

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Meanwhile, the military's dreams of a modernized force remain on hold. For example, Mexico's most advanced fighter squadron appears no closer to operational readiness than when the 12 jets were acquired from the US last year. In July, the President selected one of the F-5 pilots as Air Attache to Washington, leaving only one fully qualified instructor and 6 partially trained pilots for the F-5s. The jets still lack armament, and training is down due to fuel cutbacks under the austerity program. [redacted]

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Events to Watch in September and October

16 October - Elections in Tlaxcala for local offices 25X1

18-21 October - National Plebiscite on Municipal Reform 25X1



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Directorate of Intelligence
Office of African and Latin American Analysis

14 September 1983

NOTE FOR: Director of Central Intelligence

Attached for your information and use is a summary of recent political, military, and economic activity in Mexico. We plan to disseminate this typescript on a regular basis or as the situation warrants.


Director

Attachment:
As stated


Directorate of Intelligence
Office of African and Latin American Analysis

14 September 1983

NOTE FOR: Mr. Nestor D. Sanchez
Deputy Assistant Secretary
(Inter-American Affairs)
Department of Defense

Nestor,

Attached for your information and use is a summary of recent political, military, and economic activity in Mexico. We plan to disseminate this typescript on a regular basis or as the situation warrants.


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Directorate of Intelligence
Office of African and Latin American Analysis

14 September 1983

NOTE FOR: Mr. Al Sapia-Bosch
Senior Member of the National
Security Council

Al,

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[Redacted Signature]

Director

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As stated

Directorate of Intelligence
Office of African and Latin American Analysis

14 September 1983

NOTE FOR: Mr. Hugh Montgomery
Director, Bureau of Intelligence
and Research
Department of State

Hugh,

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[Redacted Signature]

Director

Attachment:
As stated

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Directorate of Intelligence
Office of African and Latin American Analysis

14 September 1983

NOTE FOR: Ambassador Langhorne A. Motley
Assistant Secretary of State for
Inter-American Affairs

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[Redacted Signature]

Director

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14 September 1983

NOTE FOR: Executive Director

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[Redacted Signature]

Director

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Directorate of Intelligence
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14 September 1983

NOTE FOR: Deputy Director of Central
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Director

Attachment:
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PFIAB - President's Foreign Intelligence Advisory Board

EA/EX DIR (Executive Assistant to Executive Director)
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